

BILL # SB 1137

TITLE: low income housing; tax; exemption

SPONSOR: Leff

STATUS: As Amended by Senate Finance

PREPARED BY: Chris Cranny

FISCAL ANALYSIS

Description

The bill excludes the rent of low income housing established under Section 42 of the Internal Revenue Code for the purpose of levying a transaction privilege or other similar tax by a local jurisdiction.

Estimated Impact

The bill would have no impact on the General Fund. Cities would lose approximately \$5.3 million to \$6.4 million per year in reduced Transaction Privilege Tax (TPT) revenues.

The Arizona Department of Housing (ADOH) does not have a cost estimate for this proposal.

Analysis

The Arizona Multihousing Association (AMA) estimates that there are approximately 36,000 Low Income Housing Tax Credit (LIHTC) units established under Section 42 of the Internal Revenue Code in Arizona. Several cities currently do not levy TPT taxes on the rent of these units, including Tucson, Flagstaff, and Sierra Vista. ADOH estimates that there are approximately 5,000 LIHTC units in these cities. Therefore, the total number of LIHTC units that are currently subject to TPT taxes is approximately 31,000.

Municipalities levy different TPT rates. Using data provided by the Arizona League of Cities and Towns, the average TPT rate was determined to be about 1.9% for Arizona's 14 largest cities according to the U.S. Census Bureau. Tucson, Flagstaff, and Sierra Vista were not included in this calculation since they do not levy TPT taxes on the rent of these units.

According to ADOH, persons residing in these LIHTC units may earn no more than 60% of the county median income level. Rents in these units go up as income goes up. ADOH claims that the typical renter is a family of 4 at 50% of the county median income. The average rent paid by those renting a 3 bedroom apartment at 50% of county median income is approximately \$750 per month, while the maximum average rent paid by those in these units cannot exceed about \$900 per month. The former number was used to determine the lower range of the cost estimate and the latter number was used to determine the upper range of it.

Based on approximately 31,000 LIHTC Section 42 properties and average rents ranging from \$750 to \$900 a month for a 3-bedroom apartment, JLBC Staff estimates total yearly rental revenues would total \$280 million to \$330 million. At an average TPT rate of 1.9%, the bill would reduce cities' TPT revenues by \$5.3 million to \$6.4 million yearly.

Local Government Impact

Cities would lose approximately \$5.3 million to \$6.4 million per year in reduced TPT revenues.